Q1 2025 COMMENTARY

Performance Summary

As of 3/31/2025

	Since Inception	Annualized	Q1 2025	2024	2023
Arrowside Innovation	**47.3%**	**15.6%**	**-14.2%**	**13.4%**	**43.6%**
Russell 2500 Growth	24.4%	6.1%	-10.9%	13.2%	18.0%
	22.9%	9.5%	-3.3%	0.2%	25.6%
Arrowside Innovation	**47.3%**	**15.6%**	**-14.2%**	**13.4%**	**43.6%**
S&P 500	55.1%	17.6%	-4.6%	23.3%	24.2%
	-7.8%	-2.0%	-9.6%	-9.9%	19.4%

Note: Arrowside Global Innovation inception is 10/1/22; performance is net of fees.

Market And Economic Commentary

Markets came under pressure in Q1 as the new Trump administration wasted no time rolling out its agenda. Early concerns around government headcount cuts gave way to something more significant—tariffs.

The administration's trade actions landed fast and hit harder than expected. The tone was confrontational. The percentages were high. Investors immediately started recalculating the downstream effects. Inflation risk was a big concern for imported goods and input costs across supply chains. The potential ripple effects on earnings and margins triggered a broad repricing.

Technology and consumer discretionary sectors bore the brunt. Goods-producing companies, particularly semiconductors and consumer hardware, were viewed as most exposed. Allocations came down. Bitcoin fell along with risk assets. Gold caught a bid. The rotation into perceived safety was textbook.

As the quarter went on, investors shifted focus from headlines to corporate guidance. How were company leaders interpreting the policy? How much would they pass on to customers? How would demand respond? The problem was that most companies didn't have clear answers. Guidance was vague. Visibility was low. So the market did what it always does when uncertainty rises—valuations came down. This wasn't about collapsing earnings. It was about adjusting the multiple.

These types of policy shocks are not new. We saw similar behavior after Brexit, the initial China trade war announcements, and the 2017 corporate tax changes. The market reacts swiftly, reprices based on assumptions, then gradually recalibrates as facts emerge.

Innovation Update

AI remains the most durable investment cycle in markets today. Nvidia posted revenue growth of over 240 percent year over year, Broadcom's AI segment grew 77 percent, and TSMC expects its AI-related business to double this year. These are scale numbers, not speculative ones. This is compute infrastructure being laid down at an industrial level.

This is not a short-term spike. It's a structural expansion tied to productivity, automation, and competitive advantage across sectors. As adoption deepens, spending follows.

Investment Cycle Thoughts

Since the last correction in 2022, this market has favored companies with growth, margin, and reinvestment capacity. That leadership has been narrow but logical.

The internet changed the playing field. It created pricing pressure, transparency, and competition, which has squeezed the average company. Margins are thinner. Growth costs more. The burden of proof now falls squarely on management to scale or fall behind. Most don't make the cut.

The result is a market where fewer companies capture more value. The best businesses get stronger. The average ones tread water. Many are just drowning slowly.

Interest rates add another layer. The pandemic gave companies a brief window to raise cheap capital. Large companies took advantage, while smaller ones often didn't or couldn't. Now that rates are higher, that difference matters. Larger businesses have flexibility, while smaller ones face real constraints. That helps explain why small-cap indices continue to underperform.

We maintain our high conviction that if allocators and investors want exposure to small and midsized companies to capture that long-standing equity premium, it must be done in a more concentrated strategy built for the winner-take-most economy.

The Q1 correction was fast but not surprising. We started the quarter with valuations slightly above long-term averages. After the pullback, we're back in line or slightly below. That sets the stage for fundamentals to matter again. From here, price gains will follow economic value creation, not sentiment.

That is the environment we are built for. Value will continue to accrue to the few.

Portfolio Thoughts

Our strategy hasn't changed. We focus on repeat monetization, high returns on capital, and strong reinvestment. We want to own the businesses that will create the most economic value and own them before everyone else sees it.

During the quarter, we increased our software exposure. Some names came under pressure after Q4 earnings, and we took advantage of that. We trimmed some semiconductor holdings, partly because of how far they've run and partly because we expect a more normalized spending environment in the second half of the year.

We also used the volatility to add to high-conviction names like The Trade Desk and Wingstop. Both sold off hard on short-term issues. We looked at the facts, stayed grounded, and bought more. We still believe in the long-term story, and now we own them at better prices.

Key Sector Positioning:

- **Technology**: Concentrated in software with strong monetization of AI. Semiconductor weight trimmed.
- **Consumer and Digital Platforms**: Focused on companies with monetization power and platform scale. Underweight overall.
- **Industrials**: Targeted exposure to companies with credible disruption angles.
- **Financials and Private Markets**: Long-term tailwinds remain for alternative asset managers.

Note: Arrowside Capital owns a position in The Trade Desk, Wingstop, and TSMC.

Outlook

We said last quarter that volatility would return in 2025. That has played out so far year to date. We couldn't know the shape and speed of the Trump policy rollout. Tariffs were the shock, and the reaction was swift. But now the market has reset. Growth valuations are back to fair, giving us a cleaner setup.

The long-term view remains clear. Innovation cycles, capital efficiency, and platform scale continue to drive value. As the fog lifts on policy, we expect fundamentals to reassert themselves.

We focus on what matters. We invest in companies that benefit from where the profitable revenue growth is going. We invest with great operators that reinvest wisely. Then, we let time and compounding do the work.

Thank you for your continued trust.

Sincerely,

Tucker Walsh
Managing Partner and CIO

About

Arrowside Capital is a Boston, Massachusetts based investment company focused on investing in innovative companies that have demonstrated financial discipline. The firm was founded in 2022 by Tucker Walsh, who has more than 30 years of experience in investing in small and midsized innovative companies. Arrowside Capital believes that investing in innovative companies creating change builds the most value over time. The firm's rigorous investment process searches for companies that are both innovative and profitable. Companies in the firm's concentrated portfolios have durable competitive advantages, superior margins and returns on capital, and ample reinvestment opportunities. The combination of great conditions, plus great management behaviors produce the most intrinsic value growth over the long-term. Arrowside Capital favors small and mid-cap companies to take advantage of the market inefficiencies resident in these types of companies.

Disclosures